

CITY OF MALVERN

**INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2015

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditors' Report	5-7
Management's Discussion and Analysis	8-12
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Cash Basis Statement of Activities and Net Position	A 14
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 15
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 16
Notes to Financial Statements	17-28
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	30
Notes to Other Information – Budgetary Reporting	31
Schedule of the City's Proportionate Share of the Net Pension Liability	32
Schedule of City Contributions	33
Notes to Other Information – Pension Liability	34-35
Supplementary Information:	<u>Schedule</u>
Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances - General Fund	1 37
Schedule of Indebtedness	2 38
Bond and Note Maturities	3 39
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4 40
Schedule of Expenditures of Federal Awards	5 41
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43-44
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133	46-47
Schedule of Findings and Questioned Costs	48-54

City of Malvern

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael K. Blackburn	Mayor	January 2016
Doug Shere	Council Member	January 2018
Dwain Pelzer	Council Member	Resigned May 2015
Katelyn Phelps	Council Member	January 2018
Fred Moreau	Council Member	January 2018
Brian Jaschen	Council Member	January 2016
Shari Mueller	City Clerk	Indefinite
Kathy Anderson	Deput Clerk	Indefinite
T.J. Patterman	Attorney	Indefinite

City of Malvern



Diane McGrain, CPA
Jim Menard, CPA

November 3, 2015

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units and each major fund of the City of Malvern, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Continued...

omni business centre
42 n 2nd Street
council bluffs, Iowa 51503
712•322•8734 / fax 712•322•4699

Independent Auditor's Report
City of Malvern

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the aggregate discretely presented component units and each major fund of the City of Malvern as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As disclosed in Note 5 to the financial statements, City of Malvern adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Malvern's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 8 through 12, and 30 through 35 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Continued...

Independent Auditor's Report
City of Malvern

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 3, 2015 on our consideration of the City of Malvern's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Malvern's internal control over financial reporting and compliance.

Schroer & Associates, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Malvern provides this Management's Discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 7.3%, or approximately \$105,000, from fiscal 2014 to fiscal 2015. Capital grants increased approximately \$617,000, and bond proceeds decreased \$550,000.

Disbursements increased 172.2%, or approximately \$1,398,000, in fiscal 2015 from fiscal 2014. Community and economic development disbursements increased by approximately \$956,000, and capital projects disbursements increased approximately \$325,000.

The City's total cash basis net position decreased by 78.6%, or \$700,484, from June 30, 2014 to June 30, 2015. Of this amount, the assets of the governmental activities decreased \$669,467, and business type activities decreased by \$31,017.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year, and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

One of the most important questions asked about the City's finances is, "is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- ❖ Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- ❖ Business Type Activities include the water and sanitary sewer system. This activity is financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt-Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operation and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds considered to be major funds of the City.

The required financial statements for proprietary funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$789 thousand to \$120 thousand. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service	\$ 107	\$ 131
Operating grants, contributions and restricted interest	203	176
Capital grants, contributions and restricted interest	666	49
General receipts:		
Property tax	475	433
Tax increment financing	7	8
Local option sales tax	81	88
Bond proceeds	-	550
Miscellaneous	2	1
Total receipts	<u>1,541</u>	<u>1,436</u>
Disbursements:		
Public safety	61	64
Public works	234	223
Culture and recreation	239	178
Community and economic development	1,059	103
General government	130	124
Debt service	162	120
Capital projects	325	-
Total disbursements	<u>2,210</u>	<u>812</u>
Change in cash basis net position	(669)	624
Cash basis net position beginning of year	<u>789</u>	<u>165</u>
Cash basis net position end of year	<u>\$ 120</u>	<u>\$ 789</u>

The City's total receipts for governmental activities increased by 7.3%, or \$105,000. The total cost of all programs and services increased by approximately 172.2%, or \$1,398,000. The increase in receipts was primarily due to capital grants.

The cost of all governmental activities this year was \$2,210 thousand compared to \$812 thousand last year. The City spent more monies on community and economic development and capital projects.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service		
Water	\$ 146	\$ 167
Sewer	110	123
General receipts:		
Miscellaneous	8	5
Unrestricted interest on investments	2	1
Total receipts	<u>266</u>	<u>296</u>
Disbursements:		
Water	169	222
Sewer	128	136
Total disbursements	<u>297</u>	<u>358</u>
Change in cash basis net position	(31)	(62)
Cash basis net position beginning of year	<u>102</u>	<u>164</u>
Cash basis net position end of year	<u>\$ 71</u>	<u>\$ 102</u>

Total business type activities receipts for the fiscal year were \$266 thousand compared to \$296 thousand last year. The cash balance decreased by \$31 thousand.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Malvern completed the year, its governmental funds reported a combined fund balance of \$119,849, a decrease of \$669,467 from last year's total of \$789,316. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- ❖ The General Fund cash balance increased \$29,593 from the prior of \$102,307 to \$131,900 due to an interfund transfer from Local Option Sales Tax Fund, grant funds and additional street revenue.
- ❖ The Road Use Tax Fund increased \$9,239.
- ❖ Employee Benefit Fund decreased \$6,613.
- ❖ Local Option Sales Tax Fund increased \$5,541.
- ❖ Urban Renewal Tax Increment Fund did not change.
- ❖ Library Memorial Trust Fund increased \$218.
- ❖ The Debt Service Fund cash balance increased \$2,063.
- ❖ The Capital Projects Fund cash balance decreased \$709,508 due to use of prior year bond proceeds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- ❖ The Enterprise, Sewer Fund cash balance decreased by \$16,451 to (\$35,319) during the fiscal year. \$36,838 is restricted for the sewer sinking fund.
- ❖ The Enterprise, Water Fund cash balance decreased by \$14,566 to \$106,131 during the fiscal year due to a decrease in billing charges and fees. As a result, the City continued to deficit spend in the water fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on March 3, 2015 and increased revenues \$60,464 to allow for grant receipts, an insurance claim and increased donations.

The budget amendment also increased disbursements by \$435,527 to allow for a street project, state audit fees for the library, park grant expenditures, pool unforeseen expenditures, and replacement of windows in the Liberty Memorial Building.

DEBT ADMINISTRATION

At June 30, 2015, the City had \$1,018,140 in bonds and other long-term debt, compared to \$1,197,126 last year as shown below:

	Outstanding Debt at Year End (Expressed in Thousands)	
	Year Ended June 30,	
	2015	2014
General obligation notes	\$ 612	\$ 752
Revenue notes	406	445
	<u>\$ 1,018</u>	<u>\$ 1,197</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt was approximately \$612,000 at fiscal year end, which is significantly below the City's constitutional debt limit of \$2.3 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Malvern's elected and appointed officials and citizens considered many factors when setting the fiscal year 2016 budget, tax rates and fees that will be charged for various City activities. The City decreased the tax rates approximately 0.47128 or 2.7% from the previous year.

These indicators were taken into account when adopting the budget for fiscal year 2016. The debt service levy was decreased from 5.77482 in 2015 to 5.46581 in 2016, for a difference of 0.30901.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Michael K. Blackburn, Mayor, 107 E. 4th Street, Malvern, Iowa.

Basic Financial Statements

City of Malvern
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2015

	Net (Disbursement) Receipts and Changes in Cash Basis Net Position							Component	
	Program Receipts							Units	
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest				Malvern Friends of the Library	Malvern Volunteer Fire Department
Governmental Activities					Business Type Activities	Total			
Functions/Programs:									
Governmental activities:									
Public safety	\$ 60,954	465	-	-	(60,489)	-	(60,489)		
Public works	234,232	72,753	121,598	-	(39,881)	-	(39,881)		
Culture and recreation	238,660	27,927	72,521	-	(138,212)	-	(138,212)		
Community and economic development	1,059,404	-	-	-	(1,059,404)	-	(1,059,404)		
General government	130,458	5,379	3,217	-	(121,862)	-	(121,862)		
Debt service	162,607	-	6,000	-	(156,607)	-	(156,607)		
Capital projects	325,630	-	-	666,331	340,701	-	340,701		
Total governmental activities	2,211,945	106,524	203,336	666,331	(1,235,754)	-	(1,235,754)		
Business type activities:									
Water	169,374	146,242	-	-	-	(23,132)	(23,132)		
Sewer	127,732	110,398	-	-	-	(17,334)	(17,334)		
Total business type activities	297,106	256,640	-	-	-	(40,466)	(40,466)		
Total Primary Government	\$ 2,509,051	363,164	203,336	666,331	(1,235,754)	(40,466)	(1,276,220)		
Component Units:									
Malvern Friends of the Library	\$ 12,538	-	33,234	-				20,696	-
Malvern Volunteer Fire Department	39,297	-	37,152	-				-	(2,145)
Total Component Units	\$ 51,835	-	70,386	-				20,696	(2,145)
General Receipts:									
Property tax levied for:									
General purposes					286,148	-	286,148	-	-
Employee benefits					30,619	-	30,619	-	-
Debt service					158,670	-	158,670	-	-
Tax increment financing collections					7,295	-	7,295	-	-
Local option sales tax					80,541	-	80,541	-	-
Unrestricted interest on investments					825	1,626	2,451	-	-
Miscellaneous					2,189	7,823	10,012	-	-
Total general receipts					566,287	9,449	575,736	-	-
Change in cash basis net position					(669,467)	(31,017)	(700,484)	20,696	(2,145)
Cash basis net position beginning of year					789,316	101,829	891,145	28,811	74,198
Cash basis net position end of year					\$ 119,849	70,812	190,661	49,507	72,053
Cash Basis Net Position									
Restricted:									
Expendable:									
Streets					\$ 124,167	-	124,167	-	-
Employee benefits					20,357	-	20,357	-	-
Urban renewal purposes					16,039	-	16,039	-	-
Property tax relief					61,284	-	61,284	-	-
Debt service					16,105	36,838	52,943	-	-
Library memorial					1,263	-	1,263	-	-
Unrestricted					(119,366)	33,974	(85,392)	49,507	72,053
Total cash basis net position					\$ 119,849	70,812	190,661	49,507	72,053

See notes to financial statements

City of Malvern
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and for the year ended June 30, 2015

	General	Special Revenue					Debt Service	Capital Projects	Total
		Road Use Tax	Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment	Library Memorial Trust			
Receipts									
Property tax	\$ 275,834	-	29,579	-	-	-	153,269	-	458,682
Tax increment financing	-	-	-	-	7,295	-	-	-	7,295
Other city tax	10,314	-	1,040	80,541	-	-	5,401	-	97,296
Licenses and permits	1,565	-	-	-	-	-	-	-	1,565
Use of money and property	12,617	-	-	-	-	-	-	-	12,617
Intergovernmental	14,109	118,748	-	6,000	-	-	6,000	459,104	603,961
Charges for service	104,959	-	-	-	-	-	-	-	104,959
Miscellaneous	48,524	-	-	-	-	352	-	207,227	256,103
Total receipts	467,922	118,748	30,619	86,541	7,295	352	164,670	666,331	1,542,478
Disbursements									
Operating:									
Public safety	60,954	-	-	-	-	-	-	-	60,954
Public works	105,303	109,509	19,420	-	-	-	-	-	234,232
Culture and recreation	222,374	-	10,152	6,000	-	134	-	-	238,660
Community and economic development	1,900	-	-	-	7,295	-	-	1,050,209	1,059,404
General government	122,798	-	7,660	-	-	-	-	-	130,458
Debt service	-	-	-	-	-	-	162,607	-	162,607
Capital projects	-	-	-	-	-	-	-	325,630	325,630
Total disbursements	513,329	109,509	37,232	6,000	7,295	134	162,607	1,375,839	2,211,945
Excess (deficiency) of receipts over (under) disbursements	(45,407)	9,239	(6,613)	80,541	-	218	2,063	(709,508)	(669,467)
Other financing sources (uses):									
Operating transfers in	75,000	-	-	-	-	-	-	-	75,000
Operating transfers out	-	-	-	(75,000)	-	-	-	-	(75,000)
Total other financing sources (uses)	75,000	-	-	(75,000)	-	-	-	-	-
Change in cash balances	29,593	9,239	(6,613)	5,541	-	218	2,063	(709,508)	(669,467)
Cash balances beginning of year	102,307	114,928	26,970	55,743	16,039	1,045	14,042	458,242	789,316
Cash balances end of year	\$ 131,900	124,167	20,357	61,284	16,039	1,263	16,105	(251,266)	119,849
Cash Basis Fund Balances									
Restricted for:									
Streets	\$ -	124,167	-	-	-	-	-	-	124,167
Employee benefits	-	-	20,357	-	-	-	-	-	20,357
Local option sales tax	-	-	-	61,284	-	-	-	-	61,284
Urban renewal purposes	-	-	-	-	16,039	-	-	-	16,039
Library memorial	-	-	-	-	-	1,263	-	-	1,263
Debt service	-	-	-	-	-	-	16,105	-	16,105
Unassigned	131,900	-	-	-	-	-	-	(251,266)	(119,366)
Total cash basis fund balances	\$ 131,900	124,167	20,357	61,284	16,039	1,263	16,105	(251,266)	119,849

See notes to financial statements

City of Malvern
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2015

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 146,242	110,398	256,640
Operating disbursements:			
Business type activities	169,374	77,052	246,426
Excess (deficiency) of operating receipts over (under) operating disbursements	(23,132)	33,346	10,214
Non-operating receipts (disbursements):			
Interest on investments	813	813	1,626
Miscellaneous	7,753	70	7,823
Debt service	-	(50,680)	(50,680)
Total non-operating receipts (disbursements)	8,566	(49,797)	(41,231)
Change in cash balances	(14,566)	(16,451)	(31,017)
Cash balances beginning of year	120,697	(18,868)	101,829
Cash balances end of year	\$ 106,131	(35,319)	70,812
Cash Basis Fund Balances			
Restricted for debt service	\$ -	36,838	36,838
Unrestricted	106,131	(72,157)	33,974
Total cash basis fund balances	\$ 106,131	(35,319)	70,812

See notes to financial statements

City of Malvern
Notes to Financial Statements
June 30, 2015

NOTE (1) Summary of Significant Accounting Policies

The City of Malvern is a political subdivision of the State of Iowa located in Mills County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Malvern has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Malvern (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Unit

Malvern Friends of the Library (Friends) has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for charitable purposes for the enhancement and improvement of the Malvern Public Library. In accordance with criteria set forth by the Governmental Accounting Standards Board, Friends meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by Friends are substantially for the direct benefit of the City of Malvern Library.

The Malvern Volunteer Fire Department (Department) has been incorporated under the Iowa Nonprofit Corporation Act to protect human life and property through fighting fires and providing community education in fire prevention and first aid/safety practices. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Department meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or help by the Department are substantially for the direct benefit of the City of Malvern.

City of Malvern
Notes to Financial Statements
June 30, 2015

NOTE (1) Summary of Significant Accounting Policies - Continued

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Mills County Assessor's Conference Board, Mills County Emergency Management Commission and Mills County E911 Board.

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Expendable restricted net position result when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position often have constraints on cash balances imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Malvern
Notes to Financial Statements
June 30, 2015

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefit Fund is used to account for the collection and use of tax for pension, retirement and insurance benefits.

The Local Option Sales Tax Fund is used to account for receipts required from the tax authorized by referendum and used for property tax relief.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Library Memorial Trust Fund is used to account for receipts and disbursements identified as for the benefit of the Library.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

City of Malvern
Notes to Financial Statements
June 30, 2015

NOTE (1) Summary of Significant Accounting Policies - Continued

C. Measurement Focus and Basis of Accounting - Continued

The City of Malvern maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year disbursements exceeded the amount budgeted in the capital projects function.

City of Malvern
Notes to Financial Statements
June 30, 2015

NOTE (1) Summary of Significant Accounting Policies - Continued

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2013, to compute the amounts which became liens on property on July 1, 2014. These taxes were due and payable in two installments on September 30, 2014 and March 31, 2015, at the Mills County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash in bank and certificates of deposit, totaled \$190,661.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) No. 3, as amended by Statement No. 40.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

City of Malvern
Notes to Financial Statements
June 30, 2015

NOTE (3) Notes Payable

Annual debt service requirements to maturity of general obligation and revenue notes are as follows:

Year Ended June 30,	General Obligation Notes		Revenue Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 139,675	17,141	40,000	12,180	179,675	29,321
2017	81,195	12,270	41,000	10,980	122,195	23,250
2018	56,000	9,592	42,000	9,750	98,000	19,342
2019	57,000	8,167	44,000	8,490	101,000	16,657
2021	53,000	6,742	45,000	7,170	98,000	13,912
2021-2024	225,274	13,115	194,000	14,790	419,274	27,905
	<u>\$ 612,144</u>	<u>67,027</u>	<u>406,000</u>	<u>63,360</u>	<u>1,018,144</u>	<u>130,387</u>

Interest costs paid during the year ended June 30, 2015 totaled \$33,190.

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$2,300,000 which was not exceeded during the year ended June 30, 2015.

Revenue Notes – The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$799,000 in sewer revenue notes issued in June 2004. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2024. The annual principal and interest payments on the notes were 149% of net receipts. The total principal and interest remaining to be paid is \$469,360. For the current year, principal and interest paid and total customer net receipts were \$49,569 and \$33,346, respectively.

The resolutions providing for the issuance of the sewer revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the sewer enterprise activity, and the note holders hold a lien on the future earnings of the fund.
- b) Sufficient monthly transfers shall be made to the sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.

The City has complied with the provisions of the resolution. However, net receipts were insufficient to cover debt service payments and operations resulting in a negative unrestricted fund balance.

City of Malvern
Notes to Financial Statements
June 30, 2015

NOTE (4) Lease Agreement

The City leases a copy machine under an operating lease agreement. Rent expense for the year ended June 30, 2015 was \$1,440. The future minimum required minimum lease payments are as follows:

Year ending June 30,	Amount
2016	\$ 1,440
2017	240
	<u>\$ 1,680</u>

NOTE (5) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

City of Malvern
Notes to Financial Statements
June 30, 2015

NOTE (5) Pension Plan - Continued

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$18,214.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$109,919. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was 0.002716 percent, which was a decrease of 0.000117 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$8,227, \$6,046 and \$41,920 respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

City of Malvern
Notes to Financial Statements
June 30, 2015

NOTE (5) Pension Plan - Continued

Rate of Inflation (effective June 30, 2014)	3.00 percent
Salary increases (effective June 30, 2014)	4.00 percent, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Malvern
Notes to Financial Statements
June 30, 2015

NOTE (5) Pension Plan - Continued

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$ 207,688	\$ 109,919	\$ 27,391

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

NOTE (6) Compensated Absences

City employees accumulate vacation days for subsequent use or for payment at the end of the anniversary year during which it was required to be taken. These accumulations are not recognized as disbursements by the City until used or paid. Employees are entitled to payment of accrued vacation upon termination, retirement, death, or disability. The City's approximate liability for earned vacation benefits payable to employees at June 30, 2015, primarily relating to the General Fund is \$5,801. This liability is computed on rates of pay effective as of June 30, 2015.

NOTE (7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Local Option Sales Tax	\$ <u>75,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse resources.

City of Malvern
Notes to Financial Statements
June 30, 2015

NOTE (8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$3,003 during the year ended June 30, 2015.

NOTE (9) Commitments

Law Enforcement Contract

The City has contracted with Mills County, Iowa whereby the County provides law enforcement services within the City of Malvern through the office of the Sheriff of Mills County, Iowa through June 30, 2016 for an annual amount of \$17,575.

Administrative Services Contract

The City renewed its agreement with PeopleService, whereby the City engages PeopleService to manage, operate, and maintain the City's water and wastewater utility system. The Company in turn refunds to the City all cost savings on non-payroll operating expenses. The monthly contracted fee is \$8,741, plus \$2.80 per account bill, with an annual adjustment equaling the change in Consumer Price Index for All Urban Consumers (CPI-U) plus one percent, effective through June 30, 2016.

As required in this agreement, PeopleService computes, bills, collects and transmits to the City the revenues from water, sewer and landfill usage.

Rescue Services Contract

Malvern Volunteer Rescue, Inc. is a separate entity established to provide rescue services. In July 1989, the City signed an ambulance service contract with the Organization, which has been extended for successive one year terms. The Organization is required to provide 24 hour phone service, all insurance, maintenance, repairs and supplies for City owned rescue unit vehicles and trained personnel to respond to rescue calls. The City is required to pay the Organization \$1,104 per month for these services.

Communication Services

The City has a 28E agreement with Mills County for the purpose of providing emergency communication services, effective through June 30, 2016. The City's share of the support is \$9,136 for the year ending June 30, 2016.

NOTE (10) Construction Commitments

At June 30, 2015, the City had the following construction commitments:

	Estimated Contract Amount	Paid to Date	Remaining Commitment	Retainage Payable
CDBG Downtown Revitalization Engineering	\$ 1,279,891	1,087,124	192,767	46,748

City of Malvern
Notes to Financial Statements
June 30, 2015

NOTE (11) Risk Management

The City of Malvern is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE (12) Deficit Fund Balances

At June 30, 2015, the City had the following deficit fund balances:

Capital Projects Fund	\$	251,266
Enterprise, Sewer Fund		<u>35,319</u>
	\$	<u>286,585</u>

The deficits will be eliminated with federal funds reimbursements, transfers and increases in rates when appropriate.

Other Information

City of Malvern
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds
 Other Information
 Year ended June 30, 2015

	Governmental Funds Actual	Proprietary Funds Actual	Net	Budgeted Amounts		Budget to Net Variance
				Original	Final	
Receipts						
Property tax	\$ 458,682	-	458,682	450,718	450,718	7,964
Tax increment financing	7,295	-	7,295	8,727	8,727	(1,432)
Other city tax	97,296	-	97,296	95,965	95,965	1,331
Licenses and permits	1,565	-	1,565	2,425	2,425	(860)
Use of money and property	12,617	1,626	14,243	1,850	1,850	12,393
Intergovernmental	603,961	-	603,961	1,027,756	1,088,220	(484,259)
Charges for services	104,959	256,640	361,599	369,900	369,900	(8,301)
Miscellaneous	256,103	7,823	263,926	200,000	200,000	63,926
Total receipts	1,542,478	266,089	1,808,567	2,157,341	2,217,805	(409,238)
Disbursements						
Public safety	60,954	-	60,954	67,958	67,958	7,004
Public works	234,232	-	234,232	235,032	583,532	349,300
Culture and recreation	238,660	-	238,660	186,435	245,307	6,647
Community and economic development	1,059,404	-	1,059,404	1,287,377	1,287,377	227,973
General government	130,458	-	130,458	117,585	135,740	5,282
Debt service	162,607	-	162,607	162,611	162,611	4
Capital projects	325,630	-	325,630	-	-	(325,630)
Business type activities	-	297,106	297,106	300,250	310,250	13,144
Total disbursements	2,211,945	297,106	2,509,051	2,357,248	2,792,775	283,724
Excess of receipts over disbursements	(669,467)	(31,017)	(700,484)	(199,907)	(574,970)	(125,514)
Other financing sources, net:	-	-	-	225,000	225,000	(225,000)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(669,467)	(31,017)	(700,484)	25,093	(349,970)	(350,514)
Balances beginning of year	789,316	101,829	891,145	338,821	338,821	552,324
Balances end of year	\$ 119,849	70,812	190,661	363,914	(11,149)	201,810

See accompanying independent auditors' report

City of Malvern
Notes to Other Information – Budgetary Reporting
June 30, 2015

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the discretely presented component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by \$60,464 and budgeted disbursements by \$435,527. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements exceeded the amount budgeted in the capital projects function.

City of Malvern
Schedule of the City's Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System
(In Thousands)
Other Information
Year ended June 30, 2015

City's proportion of the net pension liability	0.002716 %
City's proportionate share of the net pension liability	\$ 110
City's covered-employee payroll	\$ 187
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	58.82%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditors' report

City of Malvern
Schedule of City Contributions
Iowa Public Employees' Retirement System
Last Seven Fiscal Years
(In Thousands)
Other Information

	2015	2014	2013	2012	2011	2010	2009
Statutorily required contribution	\$ 18	17	16	13	12	10	8
Contributions in relation to the statutorily required contribution	18	17	16	13	12	10	8
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-
City's covered-employee payroll	\$ 204	187	183	162	159	145	122
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.39%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditors' report

City of Malvern
Notes to Other Information – Pension Liability
Year ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

Supplementary Information

City of Malvern
Combining Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
General Fund
As of and for the year ended June 30, 2015

	General	Liberty Memorial Sinking	Park Sinking	Library Building	Total
Receipts					
Property tax	\$ 275,834	-	-	-	275,834
Other city tax	10,314	-	-	-	10,314
Licenses and fees	1,565	-	-	-	1,565
Use of money and property	12,605	12	-	-	12,617
Intergovernmental	6,462	-	-	7,647	14,109
Charges for services	104,959	-	-	-	104,959
Miscellaneous	48,524	-	-	-	48,524
Total receipts	460,263	12	-	7,647	467,922
Disbursements:					
Operating:					
Public safety	60,954	-	-	-	60,954
Public works	105,303	-	-	-	105,303
Culture and recreation	222,374	-	-	-	222,374
Community and economic development	1,900	-	-	-	1,900
General government	122,798	-	-	-	122,798
Total disbursements	513,329	-	-	-	513,329
Excess (deficiency) of receipts over (under) disbursements	(53,066)	12	-	7,647	(45,407)
Other financing sources (uses):					
Operating transfers in	77,800	-	-	-	77,800
Operating transfers out	-	-	(2,800)	-	(2,800)
Total other financing sources	77,800	-	(2,800)	-	75,000
Change in cash balances	24,734	12	(2,800)	7,647	29,593
Cash balances beginning of year	19,104	7,064	20,101	56,038	102,307
Cash balances end of year	\$ 43,838	7,076	17,301	63,685	131,900

See accompanying independent auditors' report

Schedule 2

City of Malvern
Schedule of Indebtedness
Year ended June 30, 2015

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation notes:									
Downtown sidewalk improvement	Feb 1, 2001	5.00%	\$ 640,000	\$ 111,931	-	57,260	54,671	4,890	-
Library	Jan 18, 2007	4.75%	275,000	90,195	-	31,000	59,195	4,284	-
Street/Housing	Apr 8, 2014	2.54%	550,000	550,000	-	51,726	498,274	13,447	-
				<u>\$ 752,126</u>	<u>-</u>	<u>139,986</u>	<u>612,140</u>	<u>22,621</u>	<u>-</u>
Revenue note:									
Sewer	Jun 14, 2004	3.00%	\$ 799,000	\$ 445,000	-	39,000	406,000	10,569	-
				<u>\$ 445,000</u>	<u>-</u>	<u>39,000</u>	<u>406,000</u>	<u>10,569</u>	<u>-</u>

See accompanying independent auditors' report

City of Malvern
Note Maturities
June 30, 2015

General Obligation Notes								
Year Ended June 30,	Downtown Sidewalk Improvement				Street/Housing Improvements			
	Issued Feb 1, 2001		Issued Jan 18, 2007		Issued Apr 8, 2014			Total
	Interest		Interest		Interest			
	Rates	Amount	Rates	Amount	Rates	Amount		
2016	5.00%	\$ 54,671	4.75%	\$ 32,000	2.54%	\$ 53,000	\$ 139,671	
2017	-	-	4.75%	27,195	2.54%	54,000	81,195	
2018	-	-	-	-	2.54%	56,000	56,000	
2019	-	-	-	-	2.54%	57,000	57,000	
2020	-	-	-	-	2.54%	53,000	53,000	
2021	-	-	-	-	2.54%	54,000	54,000	
2022	-	-	-	-	2.54%	55,000	55,000	
2023	-	-	-	-	2.54%	57,000	57,000	
2024	-	-	-	-	2.54%	59,274	59,274	
Total		\$ 54,671		\$ 59,195		\$ 498,274	\$ 612,140	

Year Ended June 30,	Revenue Note	
	Sewer	
	Issued Jun 14, 2004	
	Interest Rates	Amount
2016	3.00%	\$ 40,000
2017	3.00%	41,000
2018	3.00%	42,000
2019	3.00%	44,000
2020	3.00%	45,000
2021	3.00%	46,000
2022	3.00%	48,000
2023	3.00%	49,000
2024	3.00%	<u>51,000</u>
Total		\$ <u>406,000</u>

See accompanying independent auditors' report

City of Malvern
Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds
For the Last Ten Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Receipts										
Property tax	\$ 458,682	378,852	378,852	385,502	359,237	358,456	339,395	346,343	312,598	291,091
Tax increment financing collections	7,295	6,566	6,566	6,546	3,925	-	-	-	-	-
Other city tax	97,296	91,789	91,789	86,874	85,511	83,416	86,445	82,873	83,127	73,964
Licenses and permits	1,565	830	830	1,938	2,764	1,689	2,360	1,335	1,067	472
Use of money and property	12,617	8,614	8,614	6,592	6,504	5,514	7,442	6,816	11,983	27,374
Intergovernmental	603,961	151,824	151,824	149,903	175,094	290,171	411,173	170,953	396,241	205,055
Charges for service	104,959	118,368	118,368	114,430	110,260	106,412	98,861	97,093	95,960	99,198
Special assessments	#REF!	1,627	1,627	-	-	8,657	9,414	14,708	10,284	12,731
Miscellaneous	256,103	5,626	5,626	19,526	12,668	8,815	28,993	26,191	215,279	29,583
Total	\$ #REF!	764,096	764,096	771,311	755,963	863,130	984,083	746,312	1,126,539	739,468
Disbursements										
Operating:										
Public safety	\$ 60,954	68,157	68,157	71,017	62,699	61,604	63,070	81,892	70,934	72,107
Public works	234,232	229,966	229,966	216,410	228,925	251,488	262,079	248,611	250,608	292,794
Culture and recreation	238,660	194,274	194,274	191,735	170,895	161,670	194,152	183,026	194,648	679,211
Community and economic development	1,059,404	9,332	9,332	8,625	10,034	649	1,696	1,382	7,159	53,382
General government	130,458	113,096	113,096	105,858	92,768	100,918	89,982	112,106	141,743	120,676
Debt service	162,607	120,077	120,077	120,259	126,358	114,350	115,918	134,601	75,750	90,268
Capital projects	325,630	-	-	-	-	184,301	230,024	-	630,666	95,475
Total	\$ 2,211,945	734,902	734,902	713,904	691,679	874,980	956,921	761,618	1,371,508	1,403,913

See accompanying independent auditors' report

City of Malvern
Schedule of Expenditures of Federal Awards
Year ended June 30, 2015

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass-through Number</u>	<u>Program Expenditures</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii	14.228	13-DTR-013	\$ 445,348
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii	14.228	13-HSG-020	115,308
Total			\$ <u>560,656</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Malvern. The City of Malvern financial statements are presented on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basis financial statements.

See accompanying independent auditors' report

City of Malvern



Diane McGrain, CPA
Jim Menard, CPA

November 3, 2015

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units and each major fund of the City of Malvern, Iowa, as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 3, 2015. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Malvern's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Malvern's internal control. Accordingly we do not express an opinion on the effectiveness of the City of Malvern's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility a material misstatement of the City of Malvern's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-15 to be a material weakness.

Continued...

omni business centre
42 n 2nd Street
council bluffs, iowa 51503
712•322•8734 / fax 712•322•4699

City of Malvern
Independent Auditors' Report on
Internal Control and Compliance and Other Matters

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Malvern's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Malvern's Responses to Findings

The City of Malvern's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. City of Malvern's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Malvern during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schroer & Associates, P.C.

**Independent Auditors' Report on Compliance
for Its Major Program and on Internal Control over Compliance
Required by OMB Circular A-133**



Diane McGrain, CPA
Jim Menard, CPA

November 3, 2015

Independent Auditors' Report on Compliance
for Each Major Program and on Internal Control over Compliance
Required by OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited City of Malvern's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the City of Malvern's major federal program for the year ended June 30, 2015. City of Malvern's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for City of Malvern's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Malvern's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of City of Malvern's compliance.

Opinion on Its Major Federal Program

In our opinion, City of Malvern complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Continued...

omni business centre
300 west broadway, suite 41
council bluffs, iowa 51503
712•322•8734 / fax 712•322•4699

City of Malvern
Independent Auditors' Report on Compliance
for Each Major Federal Program

Other Matters

The results of our auditing procedures disclosed an instance of non-compliance which is required to be reported in accordance with OMB Circular A-133 and is described as item III-A-15 in the accompanying Schedule of Findings and Questioned Costs. Our opinion on the major federal program is not modified with respect to this matter.

The City of Malvern's response to the non-compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City of Malvern's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

The management of City of Malvern is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Malvern's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Malvern's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirements of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirements of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schroer & Associates, P.C.

City of Malvern
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Part I: Summary of the Independent Auditors' Results:

- a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- c) The audit did not disclose any non-compliance which is material to the financial statements.
- d) No material weaknesses or significant deficiencies in internal control over the major program were disclosed by the audit of the financial statements.
- e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g) The major program was CFDA Number 14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i) City of Malvern did not qualify as a low-risk auditee.

City of Malvern
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-15 Segregation of Duties

Comment – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits, posting of the cash receipts to the cash receipts journal, and reconciling are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. In addition, the Council should review monthly the Clerk's Report and actual to budget comparisons.

Response– We will implement additional controls.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Malvern
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Part III: Findings for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

**CFDA Number 14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
Pass-through Agency Number 13-DTR-013/13-HSG-020
Federal Award Year: 2015
Department OF Housing and Urban Development
Passes through the Iowa Department of Economic Development**

III-A-15 Questioned Cost – The City requested and received reimbursement for the same invoice (2015-001) twice in the amount of \$4,389.

Recommendation – The City should implement procedures to ensure invoices are not submitted for reimbursement more than once.

Response and Corrective Action Planned – The duplicate request was mistakenly missed during review of request for reimbursement prepared by SWIPCO. We will reduce the next reimbursement requested by that amount.

Conclusion – Response accepted.

INTERNAL CONTROL DEFICIENCIES:

No matters were reported.

City of Malvern
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Part IV: Other Findings Related to Statutory Reporting:

IV-A-15 Certified Budget

Comment - Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the Capital Projects function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

IV-B-15 Entertainment Expense

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-15 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-15 Business Transactions

Comment - Business transactions between the City and City officials, or employees are detailed as follows:

Dwain Pelzer, Council Member		
Owner of Dwain's Repair Service	Vehicle Repair	<u>\$ 3,003</u>

The transaction with the Council Member appears to represent a conflict of interest since the total transactions were more than \$ 2,500 during the year.

Recommendation – Transactions with City officials or employees should awarded by bid when over the \$2,500 threshold.

Response – This will be done in the future.

Conclusion – Response accepted.

City of Malvern
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Part IV: Other Findings Related to Statutory Reporting Continued:

IV-E-15 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-15 Council Minutes

Comment - No transactions were found that we believe should have been approved in the City Council minutes but were not.

Although minutes of City Council proceedings were published, a summary of receipts were not included as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation –The City should comply with Chapter 372.13(6) of the Code of Iowa.

Response – We will comply with the Code requirements for publishing a summary of receipts.

Conclusion – Response accepted.

IV-G-15 Enterprise Debt

Comment – Although the City has made the necessary transfers per the sewer bond resolution and has serviced the debt, net receipts were insufficient to service operations and debt service requirements, resulting in a negative unrestricted fund balance.

Recommendation – The City should consider raising sewer rates in order to maintain the fund in sound financial condition.

Response – We will review this further.

Conclusion – Response accepted.

IV-H-15 Deposits and Investments

Comment - We noted an instance of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy. Bank balances during the year exceeded the authorized depository amounts.

Recommendation – The City should approve a new depository resolution increasing the authorized amounts if applicable in the future.

Response – We will increase the authorized amounts if needed in the future.

Conclusion – Response accepted.

City of Malvern
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Part IV: Other Findings Related to Statutory Reporting Continued:

IV-I-15 Financial Condition

Comment – The Enterprise, Sewer Fund had a deficit balance of \$35,319. The Capital Projects Fund had a deficit balance of \$251,266.

Recommendation – The City should monitor the activity in these funds in order to eliminate the deficits. The City should control spending within budget limits and corresponding revenue sources.

Response – We will review this further and return these funds to sound financial condition. The Capital Projects Fund deficit will be eliminated by federal funds reimbursement.

Conclusion – Response accepted.

IV-J-15 Inactive Capital Project

Comment – The Capital Projects Fund for the Library Building and FEMA are inactive.

Recommendation – The City should make the appropriate transfer to close.

Response – We will do this when funds are available from the General Fund.

Conclusion – Response accepted.

IV-K-15 Tax Increment Financing

Comment – The City has cash on hand of \$16,039 at June 30, 2015 in the Special Revenue, Tax Increment Financing Fund to pay for TIF debt no longer outstanding.

Recommendation – The City should consult bond counsel to determine the disposition of this issue.

The City should complete and provide TIF Certification Form 3 to the County Auditor to reduce the TIF indebtedness outstanding for the cash on hand in the Special Revenue, Tax Increment Financing Fund at June 30, 2015.

Response – We will consult bond counsel and submit TIF Certification Form 3 to the County Auditor to reduce the TIF indebtedness outstanding.

Conclusion – Response accepted.

City of Malvern
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Part IV: Other Findings Related to Statutory Reporting Continued:

IV-L-15 Payroll Resolution

Comment – We were unable to verify each employee's rate of pay as authorized by Council.

Recommendation – The City should pass a resolution annually specifying each employee's rate of pay.

Response – We will do this.

Conclusion – Response accepted.

IV-M-15 Annual Urban Renewal Report

The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.